

Mutual sick and death benefits society. A nonprofit organization that restricts its membership to individuals of good moral character and health belonging to a particular ethnic group residing in a stated geographical area and provides sick benefits to members and death benefits to their beneficiaries is not exempt under section 501(c)(4) of the Code for tax years beginning after June 2, 1975; Rev. Rul. 55-495 modified.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was formed to provide sick benefits for its members and pay death benefits to the beneficiaries of members. Membership is restricted to individuals of good moral character and health who belong to a particular ethnic group and reside in a stated geographical area.

Activities of the organization consist of holding monthly meetings and maintaining an established system for the payment of sick and death benefits. The organization's income is derived principally from membership dues, and is used for the payment of benefits to members and for miscellaneous operating expenses.

Section 501(c)(4) of the Code provides for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

A membership organization of the type here described is essentially a mutual, self-interest type of organization. Its income is used to provide direct economic benefits to members and any benefit to the larger community is minor and incidental. Where the benefit from an organization is limited to that organization's members (except for some minor and incidental benefit to the community as a whole), the organization is not operated exclusively for the promotion of social welfare within the meaning of section 501(c)(4) of the Code. See *Consumer-Farmer Milk Cooperative v. Commissioner*, 186 F.2d 878 (2d Cir. 1950), affirming 13 T.C. 150 (1949) and *New York State Association of Real Estate Boards Group Insurance Fund*, 54 T.C. 1325 (1970).

The distinction between social welfare organizations and mutual benefit societies is illustrated by comparing Rev. Rul. 54-394, 1954-2 C.B. 131, with Rev. Rul. 62-167, 1962-2 C.B. 142.

Both rulings consider nonprofit organizations providing television reception in areas not adaptable to ordinary reception. Rev. Rul. 54-394 holds that an organization operating in such an area whose sole activity is providing television reception to its members on a cooperative basis does not qualify as a social welfare organization. On the other hand, Rev. Rul. 62-167 holds that retransmitting television signals to the entire community without charge is a social welfare activity. The first activity is designed to benefit only the organization's members who have contracted to pay membership fees and monthly maintenance charges while the second is made available to everyone within the area.

Accordingly, since the benefit from the organization in question is for its members and there is only minor and incidental benefit to the community as a whole, the organization does not qualify for exemption from Federal income tax under section 501(c)(4) of the Code.

Rev. Rul. 55-495, 1955-2 C.B. 259, concerns an association whose membership is restricted to individuals who subscribe to a designated religious creed, are of good character and health, and have the ability to earn a livelihood.

Rev. Rul. 55-495 holds that an association that provides life, sick, accident, or other benefits to members or their dependents, but does not operate under the lodge system, or for the exclusive benefit of the members of an organization so operating, is not exempt as a fraternal beneficiary society as described in section 501(c)(8) of the Code. However, it further holds that the association is exempt under section 501(c)(4).

Rev. Rul. 55-495 is hereby modified to remove therefrom the conclusion that the association is exempt under section 501(c)(4) of the Code. However, the holding in Rev. Rul. 55-495 that the association is not exempt under section 501(c)(8) remains in effect.

Under authority granted by section 7805(b) of the Code, this Revenue Ruling will be applied only to taxable years beginning after June 2, 1975, the date of this publication in the Internal Revenue Bulletin.